

General Information Letter: Interest income on State of Illinois bonds.

May 28, 1998

Dear:

This is in response to your letter to Keith Staats dated May 20, 1998, that was recently redirected to my attention. In your letter, you requested information concerning the taxation of interest attributable to certain municipal bonds. Illinois Department of Revenue ("Department") rules require that the Department issue two types of letter rulings, private letter rulings ("PLR") and general information letters ("GIL"). PLRs are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. GILs do not constitute statements of agency policy that apply, interpret or prescribe the tax law and are not binding on the Department, but PLRs are binding on the Department. For your general information we have enclosed a copy of 2 Ill. Adm. Code Part 1200 regarding rulings and other information issued by the Department.

In your letter you have stated the following:

I was referred to you by a woman in the correspondence section concerning matters of municipal bond interest. The state (Illinois) claims my bonds are not state tax free, but the Bloomberg Service used by brokers and many other people say they are state tax free as well as Federal tax free.

The state backs up their non-tax free claim with a Publication 101 which I have. However the Publication 101 I received is dated 12/96, while the bonds were issued in 1997. Please see if you can resolve this matter with more current statutes.

The bonds in question are as follows:

Description	CUSIP #
Illinois st.	xxxxxxxxxx
(additional and different CUSIPs)	

Also find copy of Publication 101 I was sent as "proof" of non-taxable status of these bonds.

Please be advised that Section 103 of the Internal Revenue Code ("IRC") allows taxpayers to exclude from their federal gross income interest from state

and local bonds. When calculating their Illinois taxable income, Sections 203(a)(2)(A), 203(b)(2)(A), 203(c)(2)(A) and 203(d)(2)(A) of the Illinois Income Tax Act ("IITA") require taxpayers to add back to their federal taxable income all amounts paid or accrued to the taxpayers as interest during the taxable year to the extent such amounts were excluded from federal taxable income.

The provisions of Article 3 of the IITA determine whether bond interest is subject to taxation in Illinois. For your general information, income from intangible personal property, such as bonds, is taxed in the state in which the taxpayer is a resident. If an Illinois resident receives interest from an Illinois municipal bond, such income will be subject to taxation in Illinois on the interest income for the taxable year unless that interest is tax exempt. If exempt, it may then be subtracted in computing Illinois taxable income. The complete list of statutes authorizing Illinois agencies to issue Illinois tax-exempt bonds is found at 86 Ill. Adm. Code Section 10.2470(f), (copy enclosed) which was drawn from the former Publication 101.

The opinion of "Bloomberg Service" notwithstanding, the information you have provided is not adequate for the Department to determine whether interest income from the bonds about which you inquire are tax exempt under the statutes mentioned in our regulation. Furthermore, the Department does not currently have such information at its disposal. We suggest you contact the agency which issued the bonds in order to secure the documentation needed to substantiate your claim of tax-exempt status. The Department would like for you to know that it has initiated a campaign to gather information sufficient for it to maintain and publish a list of this type of tax-exempt bonds.

Sincerely,

Jackson E. Donley
Associate Counsel (Income Tax)